

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

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PRAIRIE RIDGE ADDICTION TREATMENT SERVICES
BOARD OF DIRECTORS

NAME	TITLE	TERM EXPIRES
Pam Wymore	President	October, 2012
Joel Voaklander	Vice-President	October, 2012
Laura Cerny	Secretary	October, 2012
Steve Wolfe	Treasurer	October, 2012
Robert Erickson	Member	October, 2011
Tana Olson	Member	October, 2012
Willie Wubben	Member	October, 2012
Betty McCarthy	Member	October, 2011
Charles Stock	Member	October, 2011
Phil Dougherty	Member	October, 2011
Dan Barrett	Member	October, 2011
Don Christianson	Member	October, 2011
JoEllen Steil	Member	October, 2012
Jay Hansen	Executive Director	

WILLIAMS & ASSOCIATES, P.L.C.

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MICHAEL R. BAKER, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Prairie Ridge Addiction Treatment Services
Mason City, Iowa

We have audited the accompanying statements of financial position of Prairie Ridge Addiction Treatment Services as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prairie Ridge Addiction Treatment Services as of June 30, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated November 29, 2011 on our consideration of the Organization's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Prairie Ridge Addiction Treatment Services taken as a whole. The supplemental information included in the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned basic financial statements taken as a whole.

Williams & Associates, PLLC

Williams & Associates, P.L.C.
Certified Public Accountants

Mason City, Iowa
November 29, 2011

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

ASSETS		2011	2010
CURRENT ASSETS			
Cash - undesignated		\$ 2,405,872	\$ 1,759,515
Accounts receivable, less allowance for doubtful accounts of \$662,162 and \$822,375		534,316	1,940,404
Interest receivable		257	3,511
Prepaid expenses		5,972	4,630
Total current assets		<u>\$ 2,946,417</u>	<u>\$ 3,708,060</u>
PROPERTY AND EQUIPMENT			
Land and improvements		\$ 120,560	\$ 120,560
Building		3,032,783	3,013,741
Furniture, fixtures, and equipment		703,032	629,679
Automobile		27,134	21,058
		<u>\$ 3,883,509</u>	<u>\$ 3,785,038</u>
Less accumulated depreciation		<u>1,986,988</u>	<u>1,898,636</u>
		<u>\$ 1,896,521</u>	<u>\$ 1,886,402</u>
OTHER ASSETS			
Cash designed for long-term purposes		\$ 1,396,767	\$ 1,168,552
Marketable securities designed for long-term purposes		8,480,772	7,313,319
		<u>\$ 9,877,539</u>	<u>\$ 8,481,871</u>
		<u>\$ 14,720,477</u>	<u>\$ 14,076,333</u>
		=====	=====
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable		\$ 56,111	\$ 74,368
Accrued expenses			
Payroll		106,182	99,645
Vacation		74,450	73,368
Other		50,596	46,454
Deferred revenue		--	1,405,391
Total current liabilities		<u>\$ 287,339</u>	<u>\$ 1,699,226</u>
NET ASSETS			
Unrestricted			
Undesignated		\$ 4,555,599	\$ 3,895,236
Designated by the Board of Directors		9,877,539	8,481,871
Total net assets		<u>\$ 14,433,138</u>	<u>\$ 12,377,107</u>
		<u>\$ 14,720,477</u>	<u>\$ 14,076,333</u>
		=====	=====

See Notes to Financial Statements

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2011 and 2010

UNRESTRICTED NET ASSETS	2011	2010
OPERATING REVENUES AND SUPPORT		
Iowa Department of Public Health	\$ 1,550,852	\$ 1,651,616
Client fees	1,332,638	1,524,347
Second Judicial District Department of Corrections	81,615	109,294
Prevention contract	124,689	130,624
Counties	5,198	46,215
Cities	3,000	3,000
United Way	1,643	9,482
Other income	176,774	323,286
TOTAL OPERATING REVENUE AND SUPPORT	<u>\$ 3,276,409</u>	<u>\$ 3,797,864</u>
OPERATING EXPENSES		
Program services	\$ 1,860,474	\$ 2,462,031
Support services	857,199	863,237
TOTAL EXPENSES	<u>\$ 2,717,673</u>	<u>\$ 3,325,268</u>
INCREASE IN NET ASSETS FROM OPERATIONS	\$ 558,736	\$ 472,596
NONOPERATING REVENUE		
Donations	350	6,815
Interest and dividends	237,122	149,370
Gain on investments	1,260,572	208,144
Gain (loss) on disposal of equipment	(749)	1,800
INCREASE IN NET ASSETS	<u>\$ 2,056,031</u>	<u>\$ 838,725</u>
NET ASSETS – BEGINNING OF YEAR	<u>12,377,107</u>	<u>11,538,382</u>
NET ASSETS – END OF YEAR	<u>\$ 14,433,138</u> =====	<u>\$ 12,377,107</u> =====

See Notes to Financial Statements

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2011 and 2010

	-----2011-----					-----2010-----				
	Program Services			Support Services	Total	Program Services			Support Services	Total
	Outpatient	Residential	Total	Management and General		Outpatient	Residential	Total	Management and General	
Salaries	\$ 767,296	\$ 433,733	\$ 1,201,029	\$ 442,993	\$ 1,644,022	\$ 756,050	\$ 385,584	\$ 1,141,634	\$ 478,388	\$ 1,620,022
Payroll tax	57,358	32,423	89,781	33,115	122,896	58,965	30,072	89,037	37,310	126,347
Employee benefits	124,289	71,165	195,454	80,404	275,858	122,331	62,583	184,914	66,942	251,856
Contracted services	36,043	31,494	67,537	25,191	92,728	39,177	20,852	60,029	32,290	92,319
Supplies										
Office	5,652	2,687	8,339	21,499	29,838	4,870	1,959	6,829	40,121	46,950
Food	--	93,161	93,161	--	93,161	--	91,596	91,596	--	91,596
Subscriptions & materials	27,299	15,280	42,579	3,792	46,371	36,055	10,034	46,089	5,735	51,824
Postage	562	--	562	7,622	8,184	--	24	24	6,853	6,877
Occupancy										
Rent	12,420	--	12,420	1	12,421	12,738	--	12,738	1	12,739
Laundry	--	11,642	11,642	--	11,642	--	12,518	12,518	--	12,518
Utilities	20,601	30,647	51,248	15,874	67,122	18,409	24,518	42,927	13,820	56,747
Insurance	5,827	6,093	11,920	10,378	22,298	6,389	6,561	12,950	9,186	22,136
Telephone	5,257	2,723	7,980	9,954	17,934	6,316	2,135	8,451	11,296	19,747
Travel and training	24,726	2,959	27,685	8,343	36,028	24,499	1,847	26,346	10,032	36,378
Repairs and maintenance	3,910	18,223	22,133	80,709	102,842	4,357	7,436	11,793	54,143	65,936
Expendable equipment	1,835	6,991	8,826	5,339	14,165	2,457	4,157	6,614	6,365	12,979
Other	8,004	1,440	9,444	53,834	63,278	68,182	2,460	70,642	30,533	101,175
Depreciation	33,370	54,522	87,892	58,151	146,043	33,151	54,487	87,638	60,222	147,860
Bad debts and allowances	(81,086)	(8,072)	(89,158)	--	(89,158)	291,009	258,253	549,262	--	549,262
Total expenses	\$ 1,053,363	\$ 807,111	\$ 1,860,474	\$ 857,199	\$ 2,717,673	\$ 1,484,955	\$ 977,076	\$ 2,462,031	\$ 863,237	\$ 3,325,268
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

See Notes to Financial Statements

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 2,056,031	\$ 838,725
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	146,043	147,860
Gain on investments	(1,260,572)	(208,144)
(Gain) loss on disposal of equipment	749	(1,800)
Change in assets and liabilities:		
Decrease (increase) in receivables	1,409,342	(1,347,892)
Decrease (increase) in prepaid expenses	(1,342)	8,971
Increase (decrease) in accounts payable	(18,257)	33,126
Increase in accrued expenses	11,761	10,295
Increase (decrease) in deferred revenue	(1,405,391)	1,405,391
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 938,364</u>	<u>\$ 886,532</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of property and equipment	\$ (156,911)	\$ (43,440)
Proceeds from sale of equipment	—	1,800
Proceeds from sale of marketable securities	1,290,842	1,712,337
Purchase of marketable securities	(1,197,723)	(5,208,977)
NET CASH USED IN INVESTING ACTIVITIES	<u>\$ (63,792)</u>	<u>\$ (3,538,280)</u>
NET INCREASE (DECREASE) IN CASH	\$ 874,572	\$ (2,651,748)
CASH AT BEGINNING OF YEAR	<u>2,928,067</u>	<u>5,579,815</u>
CASH AT END OF YEAR	<u>\$ 3,802,639</u> =====	<u>\$ 2,928,067</u> =====

See Notes to Financial Statements

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

Note 1. Nature of Activities

Prairie Ridge Addiction Treatment Services is a voluntary not-for-profit corporation as described in Section 501(c)(3) of the Federal Internal Revenue Code. The purpose of the Organization is to provide education and counseling for substance abusers and their families and to provide residential care services for substance abusers. Services are open to admissions on a statewide basis but the Organization primarily serves the eight-county area surrounding Mason City, Iowa. Prairie Ridge Addiction Treatment Services extends credit to clients based on an ability to pay and collects whenever possible. Public support is also solicited from the counties served by the Agency and from state agencies.

Note 2. Significant Accounting Policies

Accounting Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Allowance for Doubtful Accounts

Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

Note 2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Depreciation expense for the years ended June 30, 2011 and 2010 totaled \$146,043 and \$147,860, respectively.

Subsequent Events

Management has evaluated subsequent events through November 29, 2011, the date the financial statements were available to be issued.

Note 3. Marketable Securities and Fair Value Measurement

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- **Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in an active market. This level includes common stocks, corporate bonds or mutual funds based on the closing price reported in the active market where the securities are traded.
- **Level 2** – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, inputs that are derived principally from or corroborated by observable market data by correlation, or other means.
- **Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair values of the marketable securities listed below as of June 30, 2011 and 2010 are based on unadjusted, quoted prices in active markets as of the measurement date (often referred to as Level 1 inputs).

	2011		2010	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Common stocks and equity mutual funds	\$ 6,646,387	\$ 6,055,679	\$ 5,592,212	\$ 6,200,633
Fixed income mutual funds	<u>1,834,385</u>	<u>1,783,036</u>	<u>1,721,107</u>	<u>1,720,181</u>
	<u>\$ 8,480,772</u>	<u>\$ 7,838,715</u>	<u>\$ 7,313,319</u>	<u>\$ 7,920,814</u>
	=====	=====	=====	=====

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

Note 4. Retirement Plan

Prairie Ridge has adopted a defined contribution retirement plan covering substantially all employees. Contributions to the plan are made at the discretion of the Board of Directors and totaled \$88,253 and \$90,715 for the years ended June 30, 2011 and 2010 respectively.

Note 5. Income Taxes

Prairie Ridge is exempt from income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Note 6. Net Assets - Board Designated

Prairie Ridge has designated a portion of its net assets to be held for long-term investment purposes. Earnings from these assets will be used for special projects, renovation or replacement of fixed assets and to provide future operating funds. These assets represent otherwise spendable unrestricted funds which the Board of Directors has chosen to invest for these specific long-term purposes.

Note 7. Operating Leases

The Organization's Mason City facility is located on a leased site under a prepaid lease which expires in 2089. The Organization's Algona and Charles City operations are conducted from facilities under month-to-month rental agreements. Rental expense for all operations totaled \$12,421 and \$12,518 for the years ended June 30, 2011 and 2010, respectively.

Note 8. Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Note 9. Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Note 10. Major Source of Revenue

Approximately half of the Organization's annual revenue is received from a Federal Block Grant for Prevention and Treatment of Substance Abuse passed through the State of Iowa.

Note 11. Deferred Revenue

On January 1, 2010 the Organization was awarded Substance Abuse Prevention and Treatment Block Grants totaling \$2,108,087. The grants required Prairie Ridge to provide services through the eighteen month contract period ended June 30, 2011. Revenue was recognized under these grants as the required services are completed. \$1,405,391 related to these grants had been recorded in accounts receivable and deferred revenue at June 30, 2010.

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PROGRAM AMOUNT</u>
INDIRECT:		
U.S. Department of Health and Human Services:		
Passed through the Iowa Department of Public Health:		
Block Grants for Prevention and		
Treatment of Substance Abuse:		
Comprehensive Treatment Program	93.959	\$ 667,459
U.S. Department of Health and Human Services:		
Passed through the Iowa Department of Public Health:		
Comprehensive Substance Abuse Prevention	93.959	\$ 107,910

Note 1. Basis of Presentation

This schedule of expenditures of federal awards includes the federal grant activity of Prairie Ridge Addiction Treatment Services and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. See accompanying independent auditor's report.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Prairie Ridge Addiction Treatment Services
Mason City, Iowa

We have audited the financial statements of Prairie Ridge Addiction Treatment Services as of and for the year ended June 30, 2011, and have issued our report thereon dated November 29, 2011. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Prairie Ridge Addiction Treatment Services internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency and a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs' to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether financial statements of Prairie Ridge Addiction Treatment Services are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Organization's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Prairie Ridge Addiction Treatment Services. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Organization's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the Organization's responses, we did not audit Prairie Ridge Addiction Treatment Services responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the management of Prairie Ridge Addiction Treatment Services and other parties to whom the Organization may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Prairie Ridge Addiction Treatment Services during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Williams & Associates, PLLC

Williams & Associates, P.L.C.
Certified Public Accountants

Mason City, Iowa
November 29, 2011

WILLIAMS & ASSOCIATES, P.L.C.

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MICHAEL R. BAKER, CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133

Board of Directors
Prairie Ridge Addiction Treatment Services
Mason City, Iowa

Compliance

We have audited the compliance of Prairie Ridge Addiction Treatment Services with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2011. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on compliance with those requirements by Prairie Ridge Addiction Treatment Services.

In our opinion Prairie Ridge Addiction Treatment Services complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Prairie Ridge Addiction Treatment Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Organization's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-II-A to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-II-A to be a significant deficiency.

Prairie Ridge Addiction Treatment Services responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the Organization's responses, we did not audit those responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Prairie Ridge Addiction Treatment Services and other parties to whom the Organization may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Williams & Associates, P.L.C.

Williams & Associates, P.L.C.
Certified Public Accountants

Mason City, Iowa
November 29, 2011

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Part 1: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements, which was considered a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements, which was considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was Block Grant for Prevention and Treatment of Substance Abuse, CFDA Number 93.959.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Prairie Ridge Addiction Treatment Services did not qualify as a low-risk auditee.

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2011

Part II: Findings Related to the General Purpose Financial Statements

Finding No. 11-II-A – Segregation of Duties

Condition: The Organization has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Effect: Inadequate segregation of duties could adversely affect the Organization's ability to detect misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Response: We are aware of the risks inherent in a small organization with limited staff and are committed to implementing safeguards, where feasible, for the prevention and detection of errors and irregularities. We will continue to work with our auditors and utilize their input to enhance our system of internal control through the use of our supervisory structure to review accounting information and ensure its accuracy.

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE

No matters noted.

SIGNIFICANT DEFICIENCIES:

CFDA Number 93.959: Block Grant for Prevention and Treatment of Substance Abuse

U.S. Department of Health and Human Services
Passed through the Iowa Department of Public Health

11-III-A Segregation of Duties over Federal Program
The Organization did not properly segregate custody, record-keeping and reconciling functions including those related to its federal program. See item 11-II-A.

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 10-II-A Prevention and Treatment of Drug Abuse

Condition: Inadequate segregation of accounting duties

Current Status: See audit finding 11-II-A